CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM BOARD OF ADMINISTRATION

FINANCE COMMITTEE

MINUTES OF MEETING

September 16, 2005

The Finance Committee met on Friday, September 16, 2005 in the Lincoln Plaza Building, 400 P Street, in Sacramento, California.

The meeting was called to order at 9:37 a.m. and the following members were present:

Robert Carlson, Chair

Toni Symonds for Steve Westly, Vice Chair

James Zerio for Philip Angelides

George Diehr

Priya Mathur

Charles Valdes

Other Board Member present:

Mike Navarro

AGENDA ITEM 2 - APPROVAL OF AUGUST 12, 2005 MEETING MINUTES

The minutes were approved.

AUDITS

AGENDA ITEM 3 – CHIEF AUDITOR'S REPORT

Larry Jensen, Chief Auditor, presented a matrix listing the various activities occurring within his division. The matrix provided a status update on the following as an informational item:

- Biennial Audit Plan
- Financial Statement Audit
- Fixed Income Trading System (BlackRock) Compliance Review
- CalPERS/CalSTRS Audit Coordination
- Monitoring and Responding to Exposure Drafts and Proposals
- Reportable Significant/Material Findings

Three positions approved by this Committee at the last meeting have been recruited for and offered to three individuals.

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Deloitte and Touche began auditing CalPERS' financial statements and will complete that audit by the end of October. The Finance Committee will review the audit results at the November 15, 2005 Committee meeting.

An audit is being conducted of the Fixed Income Trading System, BlackRock. The report should be completed by mid-October and will be submitted to the Committee for review.

Mr. Jensen met with CalSTRS to develop protocols and have established quarterly meeting beginning September 30, 2005.

AGENDA ITEM 4 – OFFICE OF AUDIT SERVICES QUARTERLY AND YEAR-END STATUS REPORT

Mr. Jensen reported the quarterly and year-end status of the Office of Audit Services workload as of June 30, 2005 as an informational item. Staff has successfully completed the significant majority of audits and projects outlined in the plan at the beginning of the year that was approved by the Board of Administration. As a result of the Public Agency Audits, the most frequently reported issue was incorrect reporting of compensation. Mr. James Zerio asked if there was a way to quantify the dollar value, the level of finding, and the dollar value return to the system of the Public Agency Audit. Ken Marzion, Assistant Executive Officer, Actuarial and Employer Services Branch, stated staff will look at the current audits and work with Mr. Jensen's staff to quantify the information requested. Mr. Jensen will report back to this Committee in November.

Ms. Toni Symonds stated she noticed that one of the findings in the internal audits portion of the report reflected a company, in which CalPERS invests, did not have a disaster recovery plan. Ms. Symonds asked if our disaster recovery plan was up to date and if it has been reviewed to take into consideration what occurred due to hurricane Katrina. Mr. Carlson suggested the disaster recovery problem be addressed enterprise-wide. Curtis Howard reported to the Committee that our current disaster plan is in the process of being evaluated per a directive from CalPERS' CEO and will be reporting back to the Committee in November.

AGENDA ITEM 5 – EXTERNAL AUDIT FEES

Mr. Jensen reported to the Committee the schedule of fees paid to audit firms for Fiscal Year 2004/05 and an information item. Mr. Carlson directed staff to include a statement noting that the independent financial statement auditors, Deloitte and Touche, did not provide any consulting services to CalPERS consistent with Sarbanes-Oxley and the Finance Committee Charter in all future annual reports.

AGENDA ITEM 6 – EXTENSION OF INDEPENDENT REAL ESTATE AUDITOR CONTRACT

Mr. Jensen presented as an action item a request for approval and recommendation to the Board of Administration for a one year contract extension of the independent real estate auditor contract from May 1, 2006 to April 30, 2007, and for preparing a RFP for a Spring Fed Pool of

qualified audit firms for real estate compliance audits. The current contract that is in place expires April 30, 2006 unless it is extended. The existing contract authorizes two separate one-year extension beyond the five-year contract term. The extension will allow the existing audit process to continue and to provide the time necessary to conduct the RFP to replace the existing contract with a spring-fed pool of qualified firms.

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** the Committee recommends the Board approve the one year contract extension of the independent real estate auditor contract.

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** the Committee recommends the Board approve the preparation of a RFP for a Spring Fed Pool of qualified audit firms.

AGENDA ITEM 7 – R STREET PROJECT INDEPENDENT AUDITOR CONTRACT AUGMENTATION

Mr. Jensen presented as an action item a request for approval and recommendation to the Board of Administration to augment the contract for the R Street Project Independent Auditor Contract and for an exemption from competitive bidding.

Augmenting the contract should allow the Office of Audit Services to conduct audits of Turner Construction Company expenses throughout the duration of the project. The funds to augment the contract are currently available in the R Street Budget. No new dollars will be required. Peter Mixon confirmed that the criteria set forth in this agenda item and each of the facts meeting the criteria are there.

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** the Committee recommends the Board accept the request to augment the contract for the R Street Project Independent Auditor Contract and for an exemption from competitive bidding.

COMPLIANCE

AGENDA ITEM 8 – COMPLIANCE OFFICER REPORT

Sherry Johnstone, Chief Compliance Officer, Office of Enterprise Compliance, presented a matrix which lists the various activities occurring within her division. The matrix provided a status update on the following as an informational item:

- Personnel Update
- Reportable Significant Non-Compliance Issues
- Develop Enterprise Compliance Reporting Format
- Regulatory Review
- Compliance Area Manager Investments

Ms. Johnstone introduced the new Compliance Area Manager for Investments, Jared Englebrecht. A personnel update for the Division includes recruitment for an Executive Secretary and a Compliance Area Manager for Health.

The Compliance Area Manager – Investments, item #5 on the matrix, is a new item established in July 2005. Weekly reporting on the compliance summary will go to the Chief Compliance Officer and will be reported to this Committee.

The Office of Enterprise Compliance communication activities this quarter have included articles published in the "Member Update and "Perspective".

<u>PLANNING</u>

AGENDA ITEM 9 – 2004-05 ANNUAL PLAN – FOURTH QUARTER UPDATE

Sue Garrett presented as an action item the 2004-05 Annual Plan – Fourth Quarter Update. The report reflects the progress and status of the Annual Plan and Three-Year Plan. The report also highlights both Board reportable projects and business plan objectives achieved.

On **MOTION** by Mr. Diehr, **SECONDED** and **CARRIED** the Committee recommends the Board accept the 2004-05 Annual Plan – Fourth Quarter Update.

AGENDA ITEM 10 – SECOND READING OF THE 2005 STRATEGIC PLAN

Curtis Howard presented as an action item a request for approval and recommendation to the Board of Administration to adopt this second reading of the 2005 Strategic Plan. Priya Mathur submitted to the Committee some proposed grammatical and clarifying amendments to the document. Those amendments did not change the intent.

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** the Committee recommends the Board approve the Ms. Mathur version of the 2005 CalPERS Strategic Plan.

INFORMATION TECHNOLOGY SERVICES

AGENDA ITEM 11 – INFORMATION TECHNOLOGY SERVICES STATUS REPORT

Teri Bennett provided the status of the Pension System Resumption (PSR) Project. As of May 31, 2005, four firms were selected to go forward as qualified business partners with PSR. A RFP was released on July 22, 2005, and conceptual proposals have been received. Staff has reviewed the proposals and discussions are in process. The project is currently on schedule.

Gene Reich, Assistant Executive Officer, Information Technology Services Branch, provided a status report on the EMBARC project and the independent review of the contract process as an informational item as follows: (1) EMBARC Project contract was awarded to CIG-AMS. Detailed design is scheduled to be completed on December 31, 2005 with the systems development phase beginning in April 2006. The project is currently on schedule, and (2) a contract was awarded to KPMC, an independent contractor, on June 29, 2005, at the request of the Board to conduct a review of the CalPERS contracting process. The initial assessment phase is currently coming to the end and we will be providing the Executive Sponsor with a report on their findings and recommendations before proceeding to the remaining phases. Further discussion resulted in a request by the Committee that an update

on the initial assessment findings and recommendations to be included as an information item on the November agenda.

BUDGETS

AGENDA ITEM 12 – YEAR-END BUDGET AND EXPENDITURE REPORT FOR FISCAL YEAR 2004/05

Russell Fong, Chief, Fiscal Services Division, presented the Budget and Expenditure Report for fiscal year 2004-05 to the Committee. The report included: (1) Budget and Expenditures by Function and Division; (2) Position Summary; (3) Projected and Actual Investment Expenses; (4) Directed Brokerage Credits and Commitments; and (5) the CalPERS Headquarters Building Account Summary.

On **MOTION** by Mr. Diehr, **SECONDED** and **CARRIED** the Committee recommends the Board approve submission of this report to the Joint Legislative Budget Committee, fiscal committees of the Legislature, State Controller, and the Department of Finance in accordance with the Budget Act of 2004.

AGENDA ITEM 13 – CURRENT BUDGET ISSUES

Mr. Fong presented to the Committee the current budget issues and an outline of the planning process for the mid-year and upcoming 2006/07 budget process an information items.

AGENDA ITEM 14 – ASSISTANT EXECUTIVE OFFICER REPORT

Curtis Howard reported no new issues that require discussion with this Committee.

AGENDA ITEM 15 - PROPOSED 2006 FINANCE COMMITTEE MEETING SCHEDULE

Curtis Howard presented the proposed 2006 Finance Committee meeting calendar.

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** the Committee recommends the Board approve the 2006 Finance Committee meeting calendar.

AGENDA ITEM 16 – PROPOSED AGENDA FOR NOVEMBER 2005

The proposed November 2005 Agenda was approved as presented.

PUBLIC COMMENT:

None.

The meeting was adjourned at 11:15 a.m.

The next Finance Committee meeting will be Sacramento, California.	e held on Tuesday, November 15, 2005 in
Date:	
	FRED BUENROSTRO
	Chief Executive Officer